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IMPROVING ACCESS TO FINANCIAL SERVICES PROJECT

PROJECT WORK PLAN – FISCAL YEAR II

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Improving Access to Financial Services Project

PROJECT WORK PLAN - FISCAL YEAR II:
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USAID Improving Access to Financial Services Project in El Salvador

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The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

CONTENTS

| | |
|---|-----------|
| Abbreviations | 2 |
| Work Plan Summary | 3 |
| Implementation Orientation and Philosophy | 3 |
| Work Plan Activities | |
| Component 1: Improvement of the Enabling regulatory and supervisory environment for MSEs | 4 |
| Component 2: Improvement of Technical Skills, new products and Market Infrastructure of the Financial Institutions to Provide Appropriate Financial Services for MSEs | 7 |
| Letters of Understanding | |
| <i>AMC</i> | 11 |
| <i>ENLACE</i> | 12 |
| <i>FINCA</i> | 12 |
| <i>Apoyo Integral</i> | 13 |
| <i>ACACU</i> | 13 |
| <i>ASEI</i> | 14 |
| <i>Fundación Campo</i> | 14 |
| <i>Asociation</i> | 15 |
| Performance Monitoring | 15 |
| Reporting | 16 |
| Work Plan | 16 |
| Weekly Reports | 16 |
| Quarterly Accrual Reports | 17 |
| Quarterly Technical Reports | 17 |
| Annual Report | 17 |
| Report on Foreign Taxes | 17 |
| Report on Data Quality Assessment | 17 |
| Report on Government Property / Inventory | 17 |
| Special Reports | 17 |
| Annex A: Year II Work Plan – Calendar of Activities | 18 |
| Annex B: Estimated Annual Work Plan Budget FY 2013 | 19 |

ABBREVIATIONS

| | |
|-----------|--|
| ACACU | Asociación Cooperativa de Ahorro y Crédito de la Unión de Responsabilidad Limitada |
| AMC | Adel Morazán Créditos de Responsabilidad Limitada |
| ASEI | Asociación Salvadoreña de Extensionistas del INCAE |
| ASOMI | Asociación de Organizaciones de Microfinanzas |
| CRB | Central Reserve Bank |
| COP | Chief of Party of the USAID Improving Access to Financial Services Project |
| COR | Contracting Office Representative |
| GBSI | Global Business Solutions, Inc. – Prime Contractor |
| LOU | Letter of Understanding |
| MSEs | Micro and Small Enterprises |
| NBFIs | Non-Bank Financial Institutions |
| OTA | Office of Technical Assistance of the U.S. Treasury |
| SFS | Superintendency of the Financial System |
| STTA | Short-term Technical Assistance |
| Weidemann | Weidemann Associations, Inc. – Sub-Contractor |

WORK PLAN SUMMARY

The USAID Improving Access to Financial Services Project seeks to facilitate and increase inclusive and equitable access to financial services for micro and small enterprises (MSEs) to support their economic activities and to coordinate with efforts to promote an enabling environment for ensuring adequate financial services for these MSEs. The Project's activities are designed to increase the number and volume of productive loans to small and microbusinesses. To this end, contractor and subcontractor team is creating, promoting and implementing practical and innovative solutions to address and overcome obstacles to the flow of financial services for MSEs. This contract will also strengthen financial organizations to become more capable to meet the specific needs of MSEs and to become better prepared to confront risks in the economy.

The Project is contributing to the accomplishment of the USAID/El Salvador's Mission Strategic Objective "Economic Freedom: Open, Diversified, and Expanding Economies," through Intermediate Result No. 3 "Broader Access to Financial Markets and Services" by creating an enabling environment and increasing the capacity of financial organizations to provide appropriate and permanent services for MSEs. It is orienting Project strategies to be consistent with Goal # 6 of the Partnership for Growth agreement between El Salvador and the United States: *"Surmount low productivity of tradables by transforming factors of production of the tradables sector through the implementation of strategies to improve innovation and quality, and a focus on the international market."*

This Work Plan presents the Project Team's implementation orientation and philosophy, presents several examples of this orientation in action during the first year of operations (December 21st, 2011 – September 30th, 2012) and describes activities to be implemented during the second year of operations (October 1st, 2012 – September 30th, 2013).

IMPLEMENTATION ORIENTATION AND PHILOSOPHY

In designing, implementing, and achieving institutional strengthening activities and supporting policy reforms, the GBSI Team ensures that four key elements are always present:

1. Accurate market and technical analysis to generate appropriate recommendations;
2. Robust methodologies and strategies to implement those recommendations;
3. Creative and committed individuals and groups who understand the institutional and business landscape and who can address issues that affect MSE access to financial services, and
4. Explicit targets and goals for measuring progress.

The GBSI Team prioritizes interventions based on likelihood of success, cost effectiveness, breadth and depth of the potential impact including on women and the disabled, and the level of support for the activity among stakeholders. We coordinate with local and international actors to leverage resources and incorporate cost-sharing — in-cash or in-kind — from local partners, both to stretch resources and to ensure buy-in. This particular implementation philosophy is proving to be particularly effective, as will be presented in sections below.

The team seeks opportunities to transfer knowledge so that local actors can design and implement their own solutions. In all activities, coordination, collaboration and effective communication is paramount.

WORK PLAN ACTIVITIES

Project Components

Project Component 1: Improvement of the enabling regulatory and supervisory environment for MSEs.

While during the first year the focus of IAFS Project assistance was on Central Reserve Bank regulations for mobile financial services, in Year 2 IAFS focus will shift to supporting the activities of the Superintendency of the Financial System (SFS) while simultaneously maintaining contact with the CRB to seek opportunities to leverage Project activities.

Coordinate with OTA Representative

The GBSI Team will stay informed of the work of the representative of the U.S. Treasury's Office of Technical Assistance (OTA) to coordinate and support analyses, strategies and proposals designed to create a business environment within El Salvador which supports private sector investment and the provision of financial services by the private sector.

Mobile Financial Services

During Fiscal Year I (FY I), the Project provided significant and timely support to the Central Bank (BCR) to assist in the design and preparation of an enabling environment aimed at enhancing financial inclusion via mobile financial services offered by cell phone operators in conjunction with local banks. Activities envisioned for FY II of this Project include providing follow-up activities to promote the approval of the current set of draft regulations, which ideally will occur during the last calendar quarter of 2012.

Once the regulations come into effect, the Project will work with Project partners to seek opportunities to support implementation of mobile financial services, initially to small and micro entrepreneurs and eventually to savers as well. All Project partners are interested in lower transaction costs and broadening their outreach through the promise of mobile financial services.

Measuring financial inclusion remains an international challenge: for example, the Financial Inclusion Working Group of the *Bill & Melinda Gates Foundation's* Alliance for Financial Inclusion proposes a series of indicators oriented towards bank accounts. The Project-supported proposed regulations for mobile financial services differentiate between financial inclusion and the "*bancarización*" of those currently un-served by commercial banks. The proposed regulations are not designed to motivate people to create bank accounts, although this could very well prove to be a by-product of enhanced services, but rather to extend a range of financial services to those households currently without a bank account. The Project will monitor increased financial inclusion through Project institutional partners and will also seek opportunities, primarily through coordination with the OTA representative, to define an

appropriate series of indicators for El Salvador to monitor trends in financial inclusion following the approval of the draft regulations.

Support the Strategic Plan of the Superintendency of the Financial System (SFS)

During Project FY I, the SFS shared its Five Year Strategic Plan with the Project. This plan has six strategic objectives, of which Objective 1 and Objective 6 have particular relevance to the IAFS Project:

SFS Objective 1: Contribute to the Protection of Financial System Clients

The importance of client protection within the microfinance industry worldwide has grown significantly in the past five years. This Project supports the client protection principles promoted by the SMART Campaign¹, as replicated below:

SMART Campaign Client Protection Principles

- **Appropriate product design and delivery**
Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.
- **Prevention of over-indebtedness**
Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over-indebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing).
- **Transparency**
Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.

The Client Protection Principles

Smart Microfinance is being fully transparent in the pricing, terms and conditions of all financial products. Smart Microfinance is working with clients so they do not borrow more money than they can repay or use products that they do not need. Smart Microfinance employs respectful collection practices and adopts high ethical standards in the treatment of clients. Smart Microfinance gives clients a way to address their complaints so they can be served more effectively. Smart Microfinance ensures client data remains private. Smart Microfinance protects clients, businesses, and the industry as a whole.

Source: The SMART Campaign

¹ Source: Center for Financial Inclusion.

<http://www.smartcampaign.org/about-the-campaign/smart-microfinance-and-the-client-protection-principles>

- **Responsible pricing**

Pricing terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.

- **Fair and respectful treatment of clients**

Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate.

Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.

- **Privacy of client data**

The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

- **Mechanisms for complaint resolution**

Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

To the extent possible, the Project will work with the CRB and the SFS to embed these principles within their efforts to provide financial education throughout the country.

SFS Objective 3: **Contribute to the Deepening of the Financial System**

As indicated above, the Project has already provided significant support to this strategic objective by assisting via multiple international experts in the design and preparation of the draft set of regulations which would allow for the introduction a full range of mobile financial services in El Salvador. With the expanding coverage and penetration of cellular networks, and if experiences from Africa and Asia regarding mobile financial services are repeated in El Salvador, this support on the part of the Project will prove to be a major contributor to this SFS strategic objective.

SFS Objective 6: **Promote the Broadening of the Supervisory Perimeter**

Cajas and Credit Unions in El Salvador manage in excess of \$750 million in savings, much of which emanates from lower-income households. These institutions are currently outside the perimeter of the SFS's supervision. The Project supports this strategic goal of the SFS since it is wholly consistent with the second component of this Project: improve the performance of NBFIs. The administrative and financial disciplines demanded by SFS regulations and norms require deposit-taking institutions to prioritize prudence, resulting in stronger institutions over-all.

During FY II, the Project will work with technical teams at the SFS on two activities:

- An on-line educational tool to guide institutions interested in becoming regulated; and
- A special report on the status and risks of over-indebtedness in El Salvador as well as strategies to minimize the risk and emergence of over-indebtedness within small and micro businesses.

To develop the on-line education guide, the Project will work with a lead consultant, a team from the SFS and the CRB, graduate students from a local university and local consultants experienced with assisting institutions to become regulated. Initial discussions have discovered useful “tips” for institutions, such as the advantages of prioritizing the norms required to become supervised and even ways to seek exemptions of norms designed more for commercial banks than for microfinance institutions.

Internal Project Target Fiscal Year II

by June 30, 2013,

The Project will have finalized the on-line tool to guide non-bank financial institutions on how to become fully regulated, deposit-taking institutions.

Once completed, the Project will organize an event to communicate the availability of this on-line guide to credit unions, *Cajas de Crédito* as well as non-bank financial institutions. The purpose of this event will be to highlight the benefits which accrue to organizations which are supervised by the Superintendency of the Financial Institutions.

Regarding the second initiative, over-indebtedness is a topic which has gained increased attention following recent events in India, where calamities occurred due purportedly to over-indebtedness. Although the environment in India is complex, so is the theme of over-indebtedness, including the design of mechanisms to ensure to the extent possible that borrowers benefit from the financial services received and systems are designed and implemented which minimize over-indebtedness in the first place. The Project will work with the SFS and local experts to explore over-indebtedness within El Salvador and will develop a series of recommendations for ensuring that micro-borrowers and lending institutions are able to enhance their management of this risk.

The Project will initiate this Special Report during FY II and will conclude it during FY III.

Project Component 2: Improvement of Technical Skills, new products and Market Infrastructure of the Financial Institutions to Provide Appropriate Financial Services for MSEs.

Three “Key Results Areas” dominate this component:

- a. Improve performance of financial institutions serving MSEs and strengthen them to be eligible to become regulated financial institutions;
- b. More financial products tailored and available to MSEs; and
- c. Staff capacity within financial organizations improved for delivering new products and methodologies for MSE financial services.

The Project team's approach is to implement a range of services that may focus on one or simultaneously more of these Key Results Areas. Training events represent one example of this.

Demand-Driven Training Events

The "METAS" course, introducing an effective system for monitoring financial tendencies, is focused primarily on the first Key Results Area listed above: Improve performance of financial institutions serving MSEs and strengthen them to be eligible to become regulated NBFIs. At the same time it serves to introduce regulatory and supervisory personnel to effective alternatives for assessing MSME financial institutional performance which ensure prudence while simplifying reporting requirements, and promotes a more informed relationship between regulators, supervisors and financial institutions.

Demand for the "METAS" course remains strong during FY I; this demand may continue into FY II. However, a variety of training events are envisioned during FY II as the Project implements the activities identified in the various Letters of Understanding signed with partner institutions. Furthermore, training of trainers remains an important component of these events and efforts will increase during FY II to ensure an effective transfer of technical content and training methodologies.

The Work Plan projects three demand-driven training events during FY II.

Internal Project Target Fiscal Year II

by August 30, 2013,

The Project will invite representatives of the Central Bank, Superintendency of the Financial System and non-bank financial institutions to an event to present the on-line tool designed to assist in the process of becoming a regulated financial intermediary.

"Performance System"

An important goal of the Partnership for Growth agreement between El Salvador and the United States is to increase the number and volume of productive loans to small and micro businesses. To ensure the sustainability and continued growth of such loans long after this project ends, one strategy involves enhancing the productivity, efficiency, safety and soundness of financial intermediaries, often NBFIs, which are already serving this market.

Occasionally, the presence of ineffective information systems within these NBFIs offers a highly cost-effective opportunity to enhance efficiencies, solvency and returns simply by introducing a proven approach for rapidly distributing appropriate information to those within the organization most able to effect positive change: the branch managers. The Project's "Performance System" is being offered to partner institutions with this purpose in mind.

During FY I the Project team presented the concept of the *Performance System* with each Project partner, with a 100% response rate in terms of willingness to implement this new design. That having been said, technical challenges occasionally arise which must be addressed before the monthly monitoring reports can be distributed to branch managers. For example, the current information system within AMC takes 20 days to provide branch-level balance sheets and income statements to the branch managers, along with a series of trend lines. The branch managers are then expected to convert these statements into ratios which they will use to analyze the performance of their branch. The intent of this approach is to teach branch managers how to conduct effective trends analysis. Actual experience indicates that not all branch managers are carrying out these analytical functions.

The Project team will institute the following: (i) reduce to 5 the number of days it takes to deliver reports to the branch managers; (ii) deliver to the branch managers reports which already contain the ratios they need to assess their results; (iii) the reports will allow for easy comparisons among branches as well as the trends for each branch. Every month, branch managers will know for each indicator if their branch is performing above or below average. They will also know how every other branch is performing.

The speed and transparency of this information generates a competitive cycle which is expected to lower costs, enhance portfolio quality and improve over-all results. The system may also facilitate monitoring on the part of senior managers and the Boards of Directors.

During FY II, the goal of the Project team is to implement the "Performance System" in all eight partner institutions. The team will work with the IT employees and accountants within each organization to set up the chart of accounts and reporting format and will then participate in monitoring the subsequent reports with each NBF.

This activity is an important part of preparing NBFIs to qualify for licensing as a registered and supervised financial intermediary and is consistent with Chapter IV, Article 14 of Norm 4-47 covering the Integral Risk Management of Financial Intermediaries, as emitted by the Superintendency of the Financial System of El Salvador. (See text box previous page.)

NORMA 4-47

**NORMAS PARA LA GESTIÓN INTEGRAL
DE RIESGOS DE LAS ENTIDADES
FINANCIERAS**

CAPÍTULO IV

**SISTEMAS DE INFORMACIÓN Y DE
CONTROL**

Sistemas de información gerencial

Art. 14.- *La entidad deberá contar con un sistema de información gerencial y bases de datos estadísticas, que posibiliten la generación de información oportuna, confiable, consistente y homogénea que permitan elaborar reportes periódicos para la Junta Directiva, el Comité de Riesgos y la Alta Gerencia, así como para otros interesados responsables de la toma de decisiones en la gestión de riesgos.*

Internal Project Target Fiscal Year II

by September 30, 2013,

100% of Participating Institutions will prepare

their “*Performance System*” reports

within calendar five days following the end of each month.

The Project team will monitor the monthly progress of participating institutions by reviewing the same “*Performance System*” reports which the branch managers will receive and will use these reports to monitor and report on a number of Project deliverables within the Quarterly Reports.

After monitoring one year of results, the contractor and subcontractor team will incorporate the results and lessons learned into a “Special Report”. The intent is for this practitioner-focused report to motivate more financial intermediaries to implement the system and reap the subsequent benefits in productivity, efficiency, safety and profitability while simultaneously preparing them for external supervision. This Special Report will be finalized during FY III of this Project and will specify how financial organizations can modify existing or create new monthly reports following the design of the “*Performance System*” to generate results similar to those experienced by Project partners.

Assuming positive results, an event will be programmed during FY III to present the results of the monitoring system.

“Demand-driven Short-term Consultancies”

The Project will provide technical assistance to partner NBFIs in order to strengthen their methodologies and products, risk management capabilities, and operational efficiencies. These demand-driven, short-term consultancies will encompass all three Key Results Areas. A preliminary list of short-term specialists includes the following: a small business lending specialist, a microinsurance specialist, a micro-savings specialist and information technology specialists. The determination of the actual specializations required locally, the Scope of Work of and the timing for each consultant will be coordinated direct with the partner institutions as per the Letters of Understand signed with them.

The project will manage strategically the resources available for this Short-term Technical Assistance (STTA) to ensure that each investment contributes directly to project targets as well as the over-all goal of increasing the volume of productive loans to small and micro enterprises. All STTA will be demand-driven, as indicated above, meaning that local counterparts will participate in the identification of constraints, will help to prioritize solutions, will participate in the identification of experienced, practical consultants and will cover at least half of the corresponding expense. All STTA will require committed counterparts assigned to work closely with the consultants. To the extent possible, the work plans for the STTA will include training events consistent with the GBSI/WAI team’s approach to transfer to the extent possible, technical capabilities to local

counterparts. Explicit targets will be set with the participating institution(s) prior to the arrival of each consultant to ensure effective focus on the justification for the investment. The identification of STTA opportunities will be an on-going project activity.

The project will work closely with local counterparts to determine which new products offer the greatest opportunity to enhance financial inclusion in general and productive loans specifically. The strategic orientation is to ensure the sustainability and growth of each new product long after this project ends. The project design focuses on enhancing the safety & soundness of financial intermediaries and includes their strengthening for eventual supervision by the Superintendency of Banks (target: at least two NBFIs). This approach is consistent with the best alternative for securing long-term funding for the expansion of loan portfolios: local savings. Therefore, to ensure on-going growth of loan portfolios, the project team will explore and promote products which both apply resources (e.g. effective loan methodologies for small businesses) as well as those which secure resources (e.g. savings).

To summarize, the project will support a business-led, demand-driven approach and will seek all opportunities to leverage project resources to meet project targets. The following section describes the contents of the Letters of Understanding signed by the eight partner institutions.²

Letters of Understanding

Based on its assessment of the local market, the Project has identified eight local partners for achieving Project targets. Letters of Understanding (LOUs) have been signed which define the roles and responsibilities of the signatories, define timeframes for activities and establish explicit targets expected as a result of the identified activities.

The selection of counterparts was determined by (i) their current market presence in terms of assets, number of branches, the extent to which they already provide productive loans to small and micro enterprises, etc.; (ii) their growth plans in terms of expanding their outreach to productive borrowers; (iii) their level of commitment to ensure the success of Project support; (iv) their ability to replicate project activities by enhancing internal training capabilities; and (v) Project budget limitations, requiring a prioritization of Project resources to maximize impact.

The activities envisioned for the current local institutional partners are summarized below:

| | |
|------------|---|
| AMC | This microfinance institution / cooperative society, located in San Miguel with sixteen branch offices throughout El Salvador serving approximately 12,500 small entrepreneurs. It disburses more than 1,200 loans each month with an average value of less than US\$900. AMC is investing in its systems and operations in order to present to the SFS a proposal to become a formally regulated financial intermediary. <i>[Ref. Project target of working with at least two organizations to prepare them to become formally regulated institutions.]</i> The Project is supporting its activities by augmenting the time of its consultant hired to assist them with this process. Additionally, the following Project support activities for AMC will continue in FY II: (i) support to extend AMC's market outreach further into the rural sector, reaching communities which currently have no access to any financial services; (ii) support to profitably manage micro |
|------------|---|

² Seven of the eight Letters of Understanding will have been signed prior to the start of FY II.

savings ; and (iii) support to enhance their internal financial monitoring system. (Ref. section on “Performance System” above.)

As part of its institutional strengthening activities, the Project and AMC together are identifying investments which AMC must make prior to its submission to become a regulated institution. This discovery process makes it difficult to predict when AMC will ultimately be in a position to submit its proposal to the SFS. Once AMC obtains authorization from the SFS to capture savings, however, the Project will provide STTA to help AMC attract and manage micro savings accounts. Explicit targets will be established as a core element of all consultants’ terms of reference.

ENLACE

This microfinance institution / non-governmental organization, has a head office in Santa Tecla, ten branch offices throughout El Salvador and more than 37,000 active clients. It disburses almost ten thousand credits each month, 100% of which, on average, are below US\$400. ENLACE intends to present to the SFS its proposal to become a formally regulated financial intermediary. *[Ref. Project target of working with at least two organizations to prepare them to become formally regulated institutions.]* Since Enlace offers a solidarity group methodology, this presents a good opportunity for the Project as it works with the SFS and orients regulations affecting the management and reporting of credit methodologies. Three core activities are envisioned: (i) support to solidify and expand initial efforts to add larger individual loans to enterprises, (ii) support to profitably offer micro insurance products; and (iii) support to enhance their internal financial monitoring system. (Ref. section on “Performance System” above.) The Project will provide STTA to address the requests regarding individual loans and insurance products as well as support Enlace’s preparations to become a regulated institution. Once the Government of El Salvador approves regulations permitting mobile financial services, the Project will also orient ENLACE and all other project partners in ways to take advantage of this new transaction channel. Finally, the Project will provide assistance with ENLACE’s internal financial monitoring using capabilities within the Project team itself.

FINCA

FINCA, a non-governmental organization with its head office in San Salvador and nine branch offices throughout El Salvador currently serving approximately 6,000 clients, has a long and varied history offering financial services primarily with women entrepreneurs in El Salvador. As of the first quarter of 2012, its senior management team is brand new and most of the next level of managers has been with the organization less than one year. This institutional situation introduces a new series of challenges and opportunities for the Project.

FINCA wishes to prepare itself to become a fully regulated financial intermediary. *[Ref. Project target of working with at least two organizations to prepare them to become formally regulated institutions.]* The Project will support FINCA with this goal. Other institutional development activities contemplated as preliminary steps, including an institutional diagnosis, may influence Project support priorities.

The Project will analyze the current set of procedures within FINCA from the perspective of SFS regulations in order to establish an inventory of changes, adjustments or additions to its operational structure that should be implemented prior to any submission to the SFS. The results of this assessment may affect the priorities of the Project support.

As with other Project-supported institutions, FINCA will work with the Project to implement a branch-based management information system. This system is designed to enhance the capability of branch managers and senior executives to make decisions to enhance efficiencies, asset quality and returns.

Finally, the Project will explore, with FINCA executives, possible new product opportunities. Of greatest interest at present is a line of credit for agricultural loans and voluntary insurance products to complement the current obligatory life insurance all borrowers must purchase. As with all Project partners, targets will be established and results measured against these projections.

Apoyo Integral

Integral is a regulated microfinance institution / cooperative society. It has approximately \$70 million in assets and 35,000 microenterprise borrowers being attended through 26 branches and started to capture deposits from large and small savers alike in December 2011.

Integral has a substantial list of requests for the Project, but by far the most significant one involves helping it to convert savings into its primary source of funds. This is of particular interest because it began capturing savings only in December of 2011, and this was done by one person from the head office who was hired for this purpose.

The Project will help Integral introduce savings into its branch offices, an activity which will have a profound effect on institutional practice and culture. However, it is a crucial step for Integral to emerge as a true financial intermediary in addition to reaching far more poor households from the same communities in which it currently only offers loans. As part of its consulting activities, the Project will work with Integral to establish mutually agreed-upon targets regarding the number of new savings accounts opened.

Additional requests include support for electronic transactions, enhancing its product for small businesses, as well as a re-design of its current information system for branch managers to enhance its capacity to generate improved results. The Project will work with Integral to prioritize these activities.

ACACU

ACACU is a credit union located in La Unión. With four branch offices, it manages US\$45 million in total assets, US\$35 million of which are in outstanding loans to almost 6,000 of its membership, approximately 1,200 of which represent loans to micro and small enterprises averaging US\$3,500. ACACU has requested Project assistance to initiate the process to become a formally regulated financial institution. *[Ref. Project target of working with at*

least two organizations to prepare them to become formally regulated institutions.]

This credit union will receive Project training to enhance the awareness of its executives and branch managers of the financial and operational risks involved in managing savings. ACACU has also agreed to implement the *Performance System* as a means to enhance decision-making at the branch level.

Finally, ACACU will explore with the Project the possibility of offering new products to its membership, including potential alliances with mobile network operators to extend its outreach to areas without access to financial services.

ASEI

ASEI is a non-governmental organization (NGO) with head offices in San Salvador. It manages four branch offices, 7,200 clients and an outstanding loan portfolio of approximately US\$1.4 million. The important fact about ASEI is its plan to grow to 80,000 clients by the year 2020. For this reason it has requested Project assistance to help convert itself into a savings and loan association³. In light of the Project's work with the SFS, particularly regarding the need to extend its supervision to currently unsupervised *Cajas* and credit unions, this important institutional change for ASEI places it on a path of eventual regulation. *[Ref. Project target of working with at least two organizations to prepare them to become formally regulated institutions.]*

As with the previous institutions, executives and senior managers will attend METAS training and ASEI too will implement the *Performance System* as a means to enhance operational and financial efficiencies. Also, the Project will explore with ASEI as well opportunities to create alliances with mobile telephone operators, assuming the draft regulations are eventually approved during FY II of this Project.

F. Campo

Fundación Campo is a non-governmental organization with head offices in San Miguel. Of particular interest is that this organization works with rural producer groups, offering the Project an opportunity to explore ways to increase the productivity of participating small farmers.

Following conversations with the Project, the Fundación Campo has decided to convert, with Project support, its credit operations into a savings and loan cooperative society. As with ASEI, this institutional change will move its financial operations closer to the time when it will be able to request supervision on the part of the SFS.

Fundación Campo will participate in Project training events and will also incorporate the *Performance System* into its monthly monitoring procedures. Furthermore, the Project will assess existing training manuals and methodologies already developed by the Fundación to see if there are opportunities to enhance the capabilities of the Foundation's trainers.

³ Part of the Project's assistance to ASEI will be to help it determine the best organizational structure for moving forward. Two strong possibilities are a cooperative or an association.

Association

The Project design requires that the Project team work with “at least one association of institutions serving micro and small entrepreneurs ... to help it improve its institutional performance, advocate for an appropriate enabling ... environment for microenterprise development and serve as sources of fundamental information to its membership.”⁴ Three associations have been identified so far: (i) Fedecredito, by far the association representing the largest amount of assets under management via its network of *Cajas*; (ii) FEDECACES, the second largest association in terms of the assets of its member credit unions; and (iii) ASOMI, the association of microfinance institutions. Throughout the second Fiscal Year of activities, the Project will continue to reach out to these associations to seek opportunities to provide support to their initiatives.

PERFORMANCE MONITORING

The Project will monitor contract-defined targets as well as additional targets based on the Letters of Understanding between the Project and its partner implementing institutions. The Project is also scheduling during FY II, monitoring visits by Head Office personnel from both Prime Contractor Global Business Solutions, Inc. and Weidemann and Associates, Inc.

Every potential project implementing partner has received an orientation from the Project about the importance of establishing targets up front and then monitoring results monthly. The Project’s reporting requirements reflect standard business operations and should not burden implementing partners with additional costs.

Explicit targets for FY II are presented below. Three key indicators from Fiscal Year I include the significant increase in trained regulators and supervisors (from an initial target of 80 to the new target of 240), a proposed 400% increase in the number of new borrowers expected as a result of Project activities (from the original 800 to the proposed 3,200) and the addition of 800 new savers, a new target not envisioned in the original contract.

With the last minute withdrawal of one expected Project partner (ACACYPAC), the Project team continues its search for the eighth partner institution. Finally, as the Performance System gets implemented in partner institutions, the results for the remaining indicators will be updated in quarterly reports.

⁴ Project Contract, page 12.

| | | FY I 12/2011 - 9/2012 | FY II 10/2012 - 9/2013 | FY III 10/2012 - 4/2014 | Cumulative Totals |
|---|----------------------|------------------------------------|-------------------------------------|--------------------------------------|--------------------------|
| Regulators and Supervisors Trained (Target: 40% women) | FY II Targets | 220 | 20 | 0 | 240 |
| | FY I Result | 220 (38% Women) | | | 220 |
| MFIs strengthened (cumulative) | FY II Targets | 8 | 8 | 8 | 8 |
| | FY I Result | 7 | | | 7 |
| MFIs in compliance with SSF | FY II Targets | 0 | 2 | 0 | 2 |
| | FY I Result | 0 | | | 0 |
| Increase in MFI equity as indicator of institutional strengthening | FY II Targets | 6% | 6% | | 6% |
| | FY I Result | 0% | | | 0% |
| Number of MFI staff trained in improved MSE methodologies and products (Target: 40% women) | FY II Targets | 50 | 200 | 50 | 300 |
| | FY I Result | 123 (51% Women) | | | 123 |
| Number of New Products or instruments used by MSEs (Mobile Financial Services; Savings) | FY II Targets | 0 | 2 | 0 | 2 |
| | FY I Result | 0 | | | 0 |
| Number of New Borrowers (65% women) | FY II Targets | 200 | 2,000 | 1000 | 3,200 |
| | FY I Result | 0 | | | 0 |
| Number of New Savers (65% women) | FY II Targets | 50 | 450 | 300 | 800 |
| | FY I Result | 0 | | | 0 |

REPORTING

Work Plan

This document represents the GBSI Team work plan for Fiscal Year II of project activities. A similar document for Year III will be presented to USAID for approval on August 30th, 2013.

Weekly Reports

A bullet-point summary of activities, achievements, events and issues pertaining to program implementation and progress, will be presented to the USAID COR each week. When appropriate, these reports will be accompanied by relevant information in the USAID “Events Calendar” table to

alert the USAID COR of upcoming events which might provide opportunities for USAID to showcase its activities within El Salvador.

Quarterly Accrual Reports

Accrual reports will be presented to USAID on or before December 15, 2012 and for the year 2013, March 15, June 15 and September 15.

Quarterly Technical Reports

The Project Team will deliver to USAID quarterly reports within 30 days of the end of each quarter, using USAID's fiscal year of October – September. These reports will describe activities implemented to achieve project deliverables and will highlight progress towards established targets.

Annual Report

The first annual report to be presented on or before October 30th, 2013 will contain, in addition to the activities carried out in the previous quarter, a summary of all Project activities and accomplishments of the fiscal year which is concluding.⁵

Report of Foreign Taxes

The Project will present this obligatory report on or before April 15th, 2013.

Report of Data Quality Assessment

The Project has been informed that a data quality assessment is required once every three years. Therefore, the document presented in FYI fulfills this contract deliverable.

Report on Government Property / Inventory

The Project maintains an inventory of all equipment and furnishings purchased with USAID resources. This inventory is shared with the Project's Contracting Office Representative to facilitate on-site verifications. The Project will submit an updated inventory, including depreciated market prices and status of equipment, on or before July 30th, 2013.

Special Reports

Three Special Reports are called for in this Project. As indicated in previous sections of this Work Plan, the following reports will be prepared:

1. An on-line tool to be developed with the SFS to orient financial institutions on how to become fully-regulated intermediaries.
2. A document covering the theme of over-indebtedness in El Salvador.
3. A report which will document the impact of the *Performance System* within the financial institutions implementing it.

⁵ The Annual Report is mentioned in the FY II Work Plan timeline presented below in Annex A, although the due date for this document will fall in FY III. To bookmark this important report within this Work Plan, an outline is depicted in September 2013.

Annex A: Year II Work Plan – Calendar of Activities

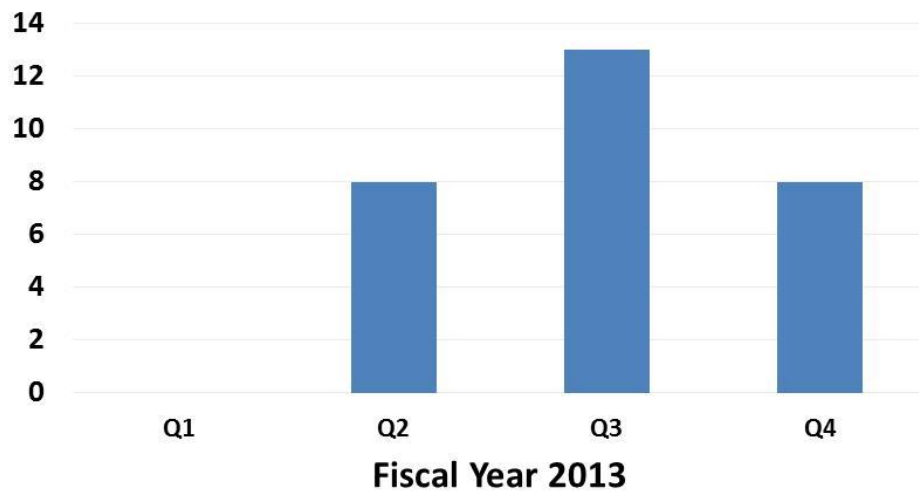
| | 2012 | | | | | 2013 | | | | | | |
|--|------|-----|-----|-----|-----|------|-----|-----|-----|-----|-----|-----|
| | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep |
| Improve Enabling Environment | | | | | | | | | | | | |
| Coordinate with OTA representative | | | | | | | | | | | | |
| Mobile Financial Services: | | | | | | | | | | | | |
| Secure Approval of Draft Regulations | | | | | | | | | | | | |
| Seek Opportunities to Support Implementation | | | | | | | | | | | | |
| Monitor Impact on Financial Inclusion | | | | | | | | | | | | |
| Support SFS Strategic Plan: | | | | | | | | | | | | |
| Seek Opportunities to Influence Policy | | | | | | | | | | | | |
| Special Report: "How To Become Regulated" | | | | | | | | | | | | |
| Special Report: "Over-Indebtedness" | | | | | | | | | | | | |
| Improve Performance of NBFIs | | | | | | | | | | | | |
| Demand-driven Training Events | | | | | | | | | | | | |
| "Performance System" | | | | | | | | | | | | |
| Installation in Partner Institutions | | | | | | | | | | | | |
| Special Report: "Performance System" Data Gathering | | | | | | | | | | | | |
| Demand-driven Short-term Consultancies | | | | | | | | | | | | |
| Reporting | | | | | | | | | | | | |
| Work Plan Year III | | | | | | | | | | | | |
| Weekly Reports | | | | | | | | | | | | |
| Quarterly Accrual Reports | | | | | | | | | | | | |
| Quarterly Technical Reports / Performance Monitoring | | | | | | | | | | | | |
| Annual Report | | | | | | | | | | | | |
| Report of Foreign Taxes | | | | | | | | | | | | |
| Report on Data Quality Assessment | | | | | | | | | | | | |
| Report on Government Property / Inventory | | | | | | | | | | | | |

ANNEX B: ESTIMATED ANNUAL WORK PLAN BUDGET FY2013

| LINE ITEM | Total Budget | Estimated Cumulative Expenditures Billed as of | Annual Work Plan Estimated Budget | | | | Estimated Total Expenditures Through | Remaining Estimated Budget Balance as of |
|--------------------|--------------------|---|-----------------------------------|------------------|------------------|------------------|--|---|
| | | | Q I | Q II | Q III | Q IV | | |
| | (1) | 30-Sep-2012 (2) | (3) | (4) | (5) | (6) | September-2013 (7) = sum(2 : 6) | September-2013 (8) = 1-7 |
| Labor | \$497,540 | \$142,200 | \$53,900 | \$63,700 | \$66,150 | \$61,250 | \$387,200 | \$110,340 |
| Fringe Benefits | \$373,070 | \$79,000 | \$44,000 | \$52,000 | \$54,000 | \$50,000 | \$279,000 | \$94,070 |
| Other Direct Costs | \$193,664 | \$55,500 | \$22,000 | \$26,000 | \$27,000 | \$25,000 | \$155,500 | \$38,164 |
| Subcontract | \$1,085,798 | \$264,000 | \$151,800 | \$179,400 | \$186,300 | \$172,500 | \$954,000 | \$131,798 |
| Indirect Costs | \$526,236 | \$150,500 | \$62,040 | \$73,320 | \$76,140 | \$70,500 | \$432,500 | \$93,736 |
| Subcontract Fee | \$54,290 | \$13,200 | \$7,590 | \$8,970 | \$9,315 | \$8,625 | \$47,700 | \$6,590 |
| Fixed Fee | \$106,912 | \$25,000 | \$12,100 | \$14,300 | \$14,850 | \$13,750 | \$80,000 | \$26,912 |
| TOTALS | \$2,837,510 | \$729,400 | \$353,430 | \$417,690 | \$433,755 | \$401,625 | \$2,335,900 | \$501,610 |

ANNEX C: TRAINING PLAN FY2013

Training Activities per Quarter



No training activities are planned for Quarter I (October 1st – December 31st, 2012). This programming will not affect the Program's expectation to solicit from USAID another increase in its deliverable target of 300 staff trained from non-bank financial institutions.

The training plan for Quarter II (January 1st – March 31st) is shown below. Eight training activities are scheduled, five of which will be provided by Project staff or consultants and the remaining three by FUNDAMICRO:

| | Subject Matter | Participating Institutions | Training Provider | Month |
|--|---------------------------------------|----------------------------|-------------------|--------|
| F Y 0 2 - Q I I | Effective Methods for Loan Collectors | ENLACE, FINCA, ASEI | Fundamicro | Jan-13 |
| | GOALS -Finance Risk Assessment | Fundación Campo | IAFS | Jan-13 |
| | Norms & Regulations | ACACU | Luis Lievano | Feb-13 |
| | Increasing Sales of MFIs Products | AMC | Fundamicro | Feb-13 |
| | Increasing Sales of MFIs Products | ACACSEMERSA | Fundamicro | Feb-13 |
| | Norms & Regulations | AMC | Luis Lievano | Feb-13 |
| | Savings | INTEGRAL | Claudia Hasfura | Mar-13 |
| | Norms & Regulations | ACACU | Luis Lievano | Mar-13 |

The training plan for Quarter III (April 1st – June 30th) is presented below. Thirteen training activities are scheduled, ten of which will be provided by Project consultants and the remaining three by FUNDAMICRO.

The strategy of using Project consultants to provide training is deliberate and is expected to be highly effective. During the consultant selection process, candidates are assessed according to past training experiences, and their terms of reference incorporate staff training to encourage a broader and deeper impact from their short-term technical assistance activities.

| | Subject Matter | Participating Institutions | Training Provider | Month |
|---|---|----------------------------|-------------------------------|--------|
| F Y 0 2 - Q I I I | Norms & Regulations | AMC | Luis Lievano | Apr-13 |
| | Norms and Regulations | AMC de R.L. | Fundamicro | Apr-13 |
| | Norms and Regulations | ACACU de R.L. | Luis Lievano | Apr-13 |
| | Usury Law & Consumer protection Law | Interested MFIs | Fundamicro | May-13 |
| | Software users modules | AMC de R.L. | Noel Espinosa Luis Lievano | May-13 |
| | Norms and Regulations | ENLACE | Luis Lievano | May-13 |
| | Topic To Be Defined | Interested MFIs | Fundamicro | Jun-13 |
| | Norms and Regulations | AMC de R.L. | Luis Lievano | Jun-13 |
| | Specific areas according to initiative findings | FINCA El Salvador | Morena Fuentes | Jun-13 |
| | New products and services | Fundación Campo | Claudia Hasfura | Jun-13 |
| | Norms and Regulations | ACACU de R.L. | Luis Lievano | Jun-13 |
| | Norms and Regulations | ACACSEMERSA de R.L. | Luis Lievano | Jun-13 |
| | New products and services | ACACSEMERSA de R.L. | Norma Monico | Jun-13 |

Finally, the training plan for the fourth quarter of fiscal year 2013 is presented on the following page. Following the same pattern as the previous quarters, of the eight programmed training events, five will be provided by Project consultants.

| | Subject Matter | Participating Institutions | Training Provider | Month |
|--------------------------------------|--|-----------------------------------|--------------------------|--------------|
| F Y 0 2 - Q I V | Savings | INTEGRAL | Claudia Hasfura | Jul-13 |
| | Topic To Be Defined | Interested MFIs | Fundamicro | Jul-13 |
| | Accounting, new institutional procedures | Fundación Campo | Napoleón Custodio | Jul-13 |
| | Norms and Regulations | ASEI | Napoleón Custodio | Jul-13 |
| | Norms and Regulations | AMC de R.L. | Luis Lievano | Aug-13 |
| | Norms and Regulations | ACACU de R.L. | Luis Lievano | Aug-13 |
| | Topic To Be Defined | Interested MFIs | Fundamicro | Aug-13 |
| | Topic To Be Defined | Interested MFIs | Fundamicro | Sep-13 |

Following evolving USAID protocols, the Project will submit to the Project COR a request to approve all training activities to be provided by entities (e.g. Fundamicro) not directly associated with or previously approved by USAID. For consultant-provided training, those training events are incorporated into the respective terms of reference and submitted to USAID as part of the broader approval package.